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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

The Greek Economy Under the Junta

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ER IM 72-144
October 1972

Copy No. 76

Approved For Release 2006/04/19 : CIA-RDP85T00875R001700040027-7

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CENTRAL INTELLIGENCE AGENCY
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INTELLIGENCE MEMORANDUM

THE GREEK ECONOMY UNDER THE JUNTA

Introduction

1. In April 1967 the Greek government was toppled by military officers seeking to remove leftist influences and establish political stability. The junta has been criticized for suppressing the democratic process and mismanaging the economy. With respect to the economy, however, the junta has used its power monopoly to pursue sensible policies. At the time of the coup, the economy was experiencing a slowdown following several years of rapid expansion. The junta put one of its leading members in charge of economic affairs and rapidly initiated measures to accelerate growth. Under Colonel Papadopoulos, who took over as Prime Minister in December 1967 following an abortive counter-coup, the regime has given considerable attention to orderly, broadly based economic development. This memorandum assesses Greek economic policy and performance under the military government, together with the outlook for the next several years.

Summary and Conclusions

2. Greece's economic growth during 1967-71 was the most rapid in Western Europe. Contributing to this growth were the country's return to a more stable political situation following the tumult of 1965-66 and the new military regime's espousal of conservative economic policies, notwithstanding its talk of creating a new Greece. Although investors initially were apprehensive, private capital outlays soon recovered, adding impetus to economic growth. Output gains have averaged 7.5% yearly, only slightly lower than in the 1961-66 boom period. Per capita income rose almost as rapidly because low rates of natural increase and substantial emigration held population gains to about 0.5% annually.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

3. Underlying this rapid growth has been the progress made in building up the industrial base and improving the composition of agricultural output. Private investment was augmented by large increases in public investment. While various fiscal measures were used to stimulate growth, the government held inflation to about 2% annually – considerably less than elsewhere in Western Europe. Emigration of workers – mostly to West Germany – combined with a moderate expansion of industrial employment, kept unemployment low.

4. Because of the need for capital goods imports and foreign investment, the balance of payments is the major potential constraint on economic growth. Since 1966, however, this situation has been more a worry than a problem. Foreign reserves reached a record $525 million in December 1971 despite a widening trade deficit. Although merchandise exports expanded appreciably, they could not keep pace with the 70% increase in imports. The accumulation of reserves was made possible by large gains in tourist earnings, shipping receipts, and remittances from Greeks working abroad, together with rising capital inflows. Despite condemnation by many observers abroad, the regime gradually won the confidence of foreign investors.

5. The outlook for continued rapid economic growth over the next few years is good. With public and private investment apt to expand rapidly, Greece should be able to sustain at least a 7% annual growth rate. Although the trade deficit will likely continue to worsen, the prospects for growth of service receipts are good, and Greece should be able to attract sufficient medium-term and long-term capital to prevent erosion of its foreign exchange reserves.

Discussion

Background: The Pre-Coup Boom

6. In the early 1960s, Greece made major economic strides despite initially low investment and increasing political turmoil. With its gross national product (GNP) increasing an average of 7.7% annually in 1961-66, Greece was second only to Spain among West European countries. Although private investment declined moderately in 1961-63 in reaction to excess capacity and declining US economic aid, growth generally held up well. Moreover, 1964 saw the start of an investment boom characterized by growing private outlays for housing, tourist facilities, manufacturing plants, and ships, as well as heavy public spending on infrastructure, especially transportation and power projects. As a result, the share of gross fixed

investment rose from 19% of GNP in 1955-60 to 22% in 1961-66. Public programs, financed with little inflationary effect, provided much of the growth impetus, but private outlays continued to make up nearly three-fourths of total investment.

7. The balance of payments remained precarious during 1961-66 but did not require special controls. Imports jumped from $723 million to $1,153 million, and – although good gains were made in sales of minerals and simple manufactures such as textiles, metal products, cement, and chemicals – merchandise exports equaled only 35% of imports in 1966, compared with an already low 40% in 1960. The growth in workers' remittances during the six-year period, from $90 million to $238 million, greatly helped in closing the gap. Tourism also was a bright spot: net earnings more than tripled, reaching $103 million in 1966. Even these revenues and a large gain in shipping receipts did not forestall increased current account deficits, however. Growing capital inflows, mainly long-term private capital and suppliers' credits, thus were important factors enabling Greece to avoid payments difficulties.

8. Although economic growth rates remained high, they slipped in 1965-66 because of political tensions and government efforts to ease demand pressures. During this period, four governments fell, and strikes and riots occurred almost daily. Attempting to divert some investment funds from housing into more productive sectors, the government in 1966 imposed a tax on real estate transactions. It also tightened monetary policy to combat rising prices. These events combined to reduce annual investment growth to about 15%, down from about 25% at the boom's 1964 peak.

The Junta's Economic Policies

9. The junta's economic policies have been essentially conservative, resembling those followed by Brazil's military regime. It thus contrasts with the nationalism, populism, and revolutionary reforms that some military coups elsewhere have brought forth. The government has guided and supported the country's economic advance but has not resorted to nationalization or direct involvement in production and distribution. It clearly sees the private sector as playing the main role. Moreover, the regime has strongly encouraged foreign private investment, writing into the 1968 constitution guarantees against nationalization and against blocking capital remittances. Greece's new leaders seem to have a genuine interest in improving the people's material welfare. So far, at least, they have pursued this goal not through income redistribution but by fostering economic growth.

10. The military's commitment to economic development was indicated most explicitly in the 1968-72 five-year plan, which included real per capita income increases averaging 7.5% annually. Investment was to increase 10% annually, with the public share rising from 29% in 1962-66 to 33% in 1968-72. In public investment, the junta has stressed expansion of educational, health, transport, and communications facilities throughout the country. In addition, it has worked out schemes for building up manufacturing, tourism, and certain lines of agriculture – particularly those advantageous to the balance of payments. The government obviously also hopes that long-term economic progress will be furthered by various financial incentive programs, by its plans to provide more technical education, and by reforms designed to make the civil service more expert and responsive to direction.

Initial Tasks

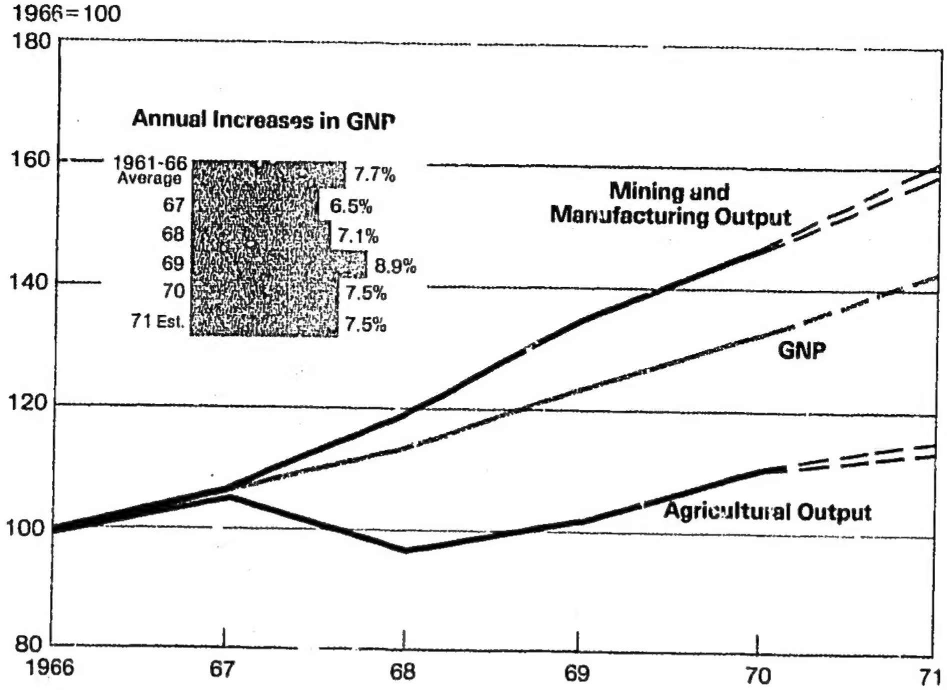
11. The junta's immediate economic priority upon taking power was to reverse the slowdown that had begun in 1965. This action could not be accomplished without restoring business confidence, which had been shaken by the earlier confused political situation and then by uncertainties about the officers' aims. The Revolutionary Council, as the coup leaders called themselves, quickly tried to reassure domestic and foreign investors that private enterprise was secure and that no drastic reforms were contemplated. To help strengthen demand, the regime stepped up public spending, especially investment outlays. After stagnating in 1967, investment budget expenditures jumped by 29% in 1968. Private investment increased even more rapidly, as the special tax on real estate transactions was repealed and new incentives for manufacturing investment were offered. Private demand also was buoyed by a 22% rise in the minimum wage. These stimuli made possible a 7% GNP growth in 1968, somewhat better than in 1967 but below earlier levels. A more impressive outcome was prevented by drought and other problems that reduced agricultural output.

Return of High Growth Rates

12. The overall economic growth record for the junta's first five years is creditable. With average output gains of 7.5% (see Figure 1), Greece almost matched its earlier accomplishment and outdid all other West European countries. Population growth continued to be slow – only 0.5% annually. Hence, per capita output rose almost as fast as total output – about 40% over the five-year period. Although private outlays dipped in 1970 because of a credit crunch on housing investment and normal fluctuation in shipping investment, fixed investment showed considerable strength, advancing to an average of 26.5% of GNP during 1967-71 (see Figure 2). Moreover, a greater share of investment comprised new

Greece: Economic Growth Under the Junta

Figure 1



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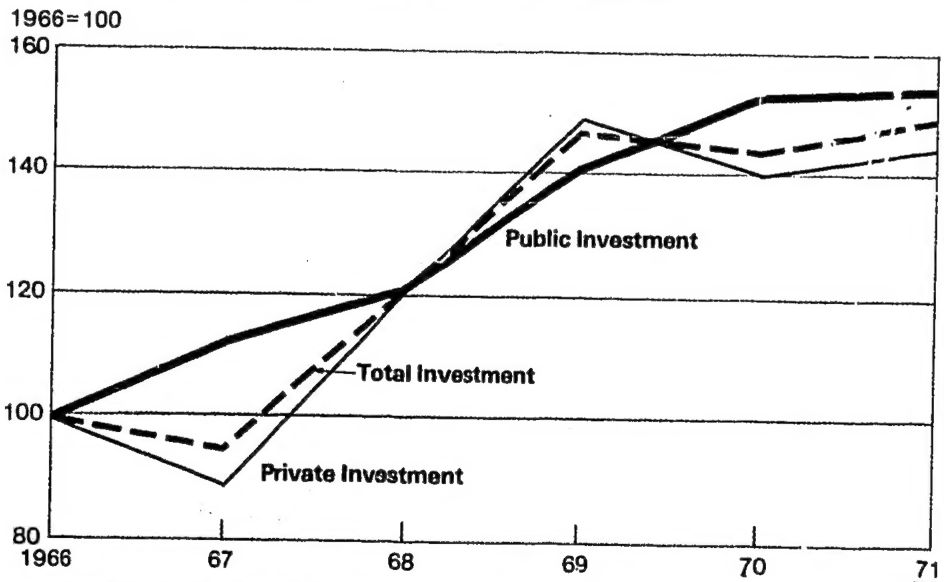
Greece: Trends in Gross Fixed Investment

Figure 2



	1966	67	68	69	70	71 Est.
Public Investment as a Percent of Total Investment	26.0	31.0	26.0	25.5	28.0	27.0
Total Investment as a Percent of GNP	25.0	22.5	26.5	29.5	27.0	26.5

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manufacturing capacity – much of it export-oriented – while a smaller share was for luxury housing.

13. Led by new industries established in the early 1960s and expanded later in the decade, manufacturing output grew about 10% annually during 1967-71. The most notable gains were in metals (up 108% since 1966), rubber and plastics (91%), and chemicals (68%). In contrast, output of food and beverages rose only about 30%, and tobacco manufactures declined. Mining expanded at about the same rate as manufacturing, paced by a rise in output of nickeliferous iron ore from about 90,000 metric tons in 1966 to 883,000 tons in 1970, reflecting expansion of the Larimna operation.

14. In agriculture, modest growth was accompanied by desirable changes in the composition of output and by wide-ranging institutional reforms. Farm output rose an average of 2.5% to 3% annually during 1967-71, for a per capita gain of about 10%. The junta encouraged changes in the production pattern by shifting emphasis in 1967 from long-established price supports to a system of direct income grants for many farm products. As market forces began to play a greater role in determining prices, the direct income supplements became the principal means of maintaining farm incomes. Relatively low "intervention prices" were retained, however, to avoid extreme drops in farm incomes. The new subsidy system has discouraged increases of crops already in surplus and has stimulated production of items in demand domestically or competitive in foreign markets. Output of such traditional crops as oriental tobacco and wheat thus has stagnated or declined since 1966, while production of burley tobacco, sugar beets, meat, and certain other products has risen considerably, as the following tabulation shows:

	Thousand Tons	
	1966	1971
Traditional crops		
Wheat	1,962	1,933
Oriental tobacco	92	75
Currants and sultanas	183	176
Newly emphasized products		
Feed grains	1,131	1,496
Alfalfa	959[a]	1,800[b]
Red meat	196	238
Sugar beets	831	1,252
Burley tobacco	6	14
Potatoes	579	727
Tomatoes	514	1,021[b]
Citrus	300	509

a. 1965.
b. 1970.

In addition to encouraging production shifts, the regime turned the marketing of the main agricultural commodities over to private enterprise – a function that previously had been wholly or partly state controlled. These moves clearly represent progress toward a more modern, competitive farm system and are saving the government substantial amounts in subsidies and storage and handling costs.

15. The small size and fragmentation of many farms remain major problems, even though some progress has been made in creating more compact holdings. Holdings totaling some 300,000 acres were consolidated during 1968-70 – about one-third more than in 1965-67. The acreage involved, 4% of the arable land, amounted to only three-fifths of the regime's goal. Moreover, it is located mainly in areas newly irrigated under government programs, where consolidation of scattered plots is compulsory. Fearing that disruption of production and rural unrest might result, the Papadopoulos regime has not seriously confronted the basic causes of fragmentation, such as the dowry system.

16. Athens has stressed agricultural projects aimed at improving productivity – especially irrigation facilities – in its investment programs. Public investment in agriculture rose 72% in real terms during 1967-70 and, among other things, helped to expand the irrigated area by about 75,000 acres annually since 1967 – about two-thirds of the five-year plan target.

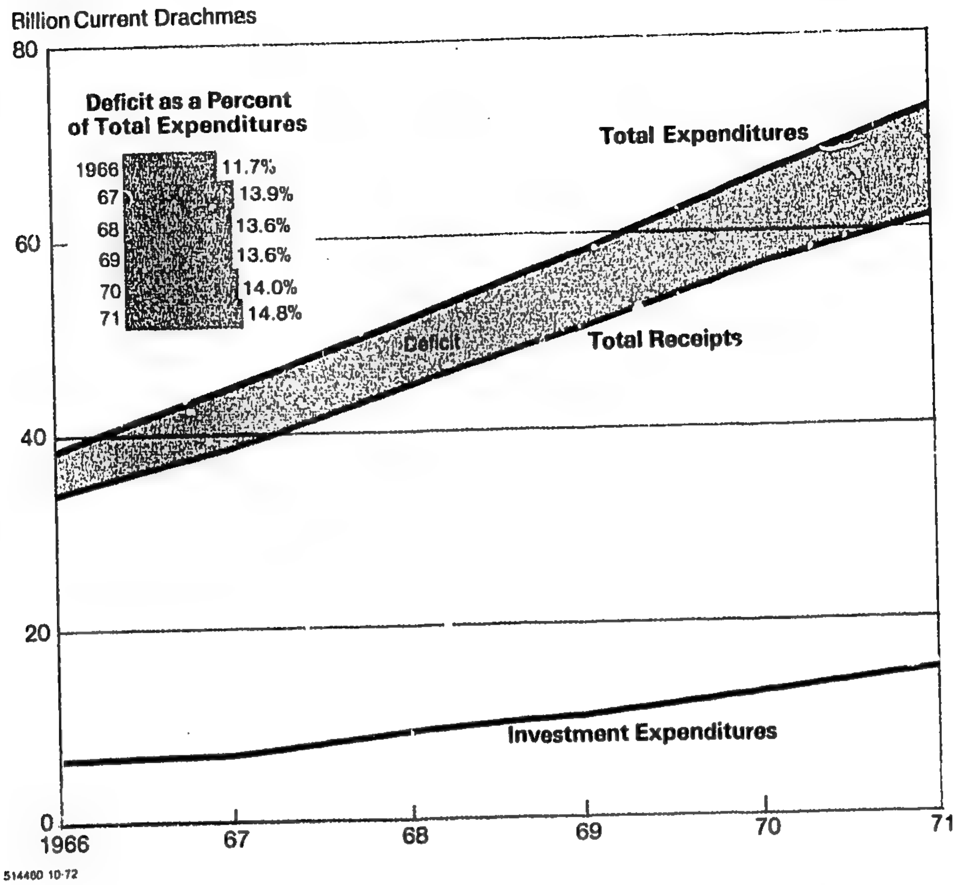
A Conservative Path in Public Finance

17. Although cautious in financial matters and eager to maintain stable prices, the junta has not shrunk from expansionary budget policies. The rate of central government spending rose almost twice as fast as GNP during 1967-71. Even with higher revenues resulting from accelerated economic growth and more efficient tax collection, the deficit rose from 11.7% to 14.8% of expenditures (see Figure 3). In part reflecting an increased emphasis on small community projects and educational facilities, the proportion of government spending devoted to investment increased moderately, to 20.5%. The share of national defense (including military pension payments) rose about two percentage points, to 19% in 1971. Subsidies, however, declined from about 8% of total expenditures at the beginning of the period to only 5% to 6% in more recent years because of a drop-off in agricultural payments.

18. The government has been successful in financing its deficits in a non-inflationary manner. About three-fourths of the total deficit in 1967-71 was covered by floating bond issues domestically – a procedure that was aided by the public's willingness to increase its savings substantially. The remaining deficit was financed by borrowing abroad. Reflecting its

Figure 3

Greece: Central Government Budget Trends



policy of encouraging industrial development and structural reform in agriculture, the regime selectively employed monetary policy to provide a substantial, although not excessive, rise in credit to private industrial and agricultural enterprises. At the same time, it restricted the growth of credit for trade and housing construction. After rising about 1% annually in 1967-68, prices climbed by 2.5% in 1969 and 3% in 1970 and 1971. Although the inflation was low by West European standards, the government reacted by setting up a committee to review price increases, raising commercial bank reserve requirements, and directing the banking system to curb expansion of some types of credit.

Foreign Trade Trends

19. Crucial to the economy's continued rapid progress was the fact that several means of financing imports were available and all developed fairly favorably. As a result of Greece's growing net receipts from services and large inflows of foreign capital, the rapid rise of imports – and the

consequent swelling of the trade deficit to $1.3 billion by 1971 – did not create balance-of-payments strain. The industrial buildup and rising incomes had a marked impact on imports, causing them to grow an average of 11% yearly. In the forefront of this growth were capital goods imports, up 21% annually to $584 million.

20. The campaign to broaden the assortment of exports yielded good results; overall export growth averaged 9% yearly in 1967-71. Greece did especially well in nearly quadrupling deliveries of manufactured goods, which rose from about one-eighth of total exports in 1966 to one-third in 1971, as shown in the following tabulation:

	Million US $			
	1966	1970	1971	Percent Change 1971 over 1966
Manufactured goods (including handicrafts)	54	224	209	287
Minerals	27	46	47	74
Food and beverages	133	175	187	41
Tobacco	120	102	95	-21
Other	69	66	87	26
Total	**403**	**613**	**625**	55

Sales of metals (mainly aluminum, nickel, and steel) and metal products averaged $101 million in 1970-71, almost half of all manufactured goods exports. Also growing especially rapidly, albeit from a small base, were exports of chemicals and pharmaceutical products, footwear and other leather goods, and handicrafts such as pottery and ornamental earthenware. Moreover, mineral exports rose considerably even though an increasing share of the bauxite and nickeliferous iron ore mined was processed domestically and exported as metal. Deliveries of dead-burnt magnesite boomed and accounted for nearly half of mineral exports by 1971. In the aggregate, sales of food and beverages also showed moderate gains. Large increases in sales of citrus fruit, vegetable and fruit preserves, and wine were partly offset by declines in exports of raisins and stagnation in exports of currants, olives, and olive oil. The most serious decline among agricultural exports, however, occurred with respect to oriental tobacco, still the largest single commodity among Greece's exports. This decline is due largely to a shift in world demand from oriental tobacco to other varieties.

21. With the progressive liberalization of tariff and other restrictions under Athens' associate membership agreement, the European Community (EC) has become an increasingly important customer. The EC's share of Greek exports increased from 36% in 1966 to about 46% in 1970. It has risen to around three-quarters for some textile and chemical products, which have entered duty free since 1968. The EC countries also account for very sizable shares of many Greek agricultural exports such as raisins (allowed duty-free entry) and olive oil and wine (which receive tariff preferences). The share of exports going to the United States, still one of Greece's leading trade partners, has stagnated since 1966 - mainly because tobacco sales have plummeted while sales of most manufactured goods have increased only moderately.

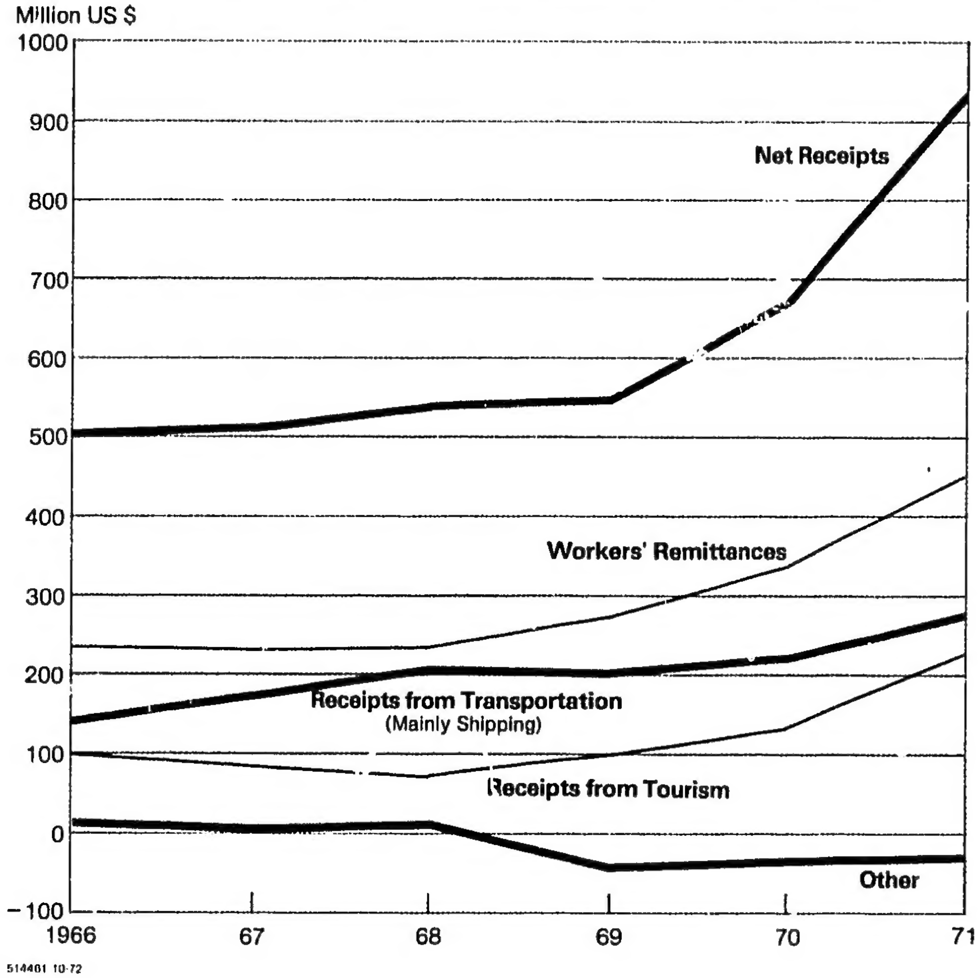
Importance of Service Receipts and Capital Inflows

22. Far more important than exports in supporting import growth during 1967-71 was the overall gain in receipts from services. As shown in Figure 4, workers abroad, tourism, and shipping have provided a large and increasing share of foreign exchange earnings. Many Greeks continued to find jobs in labor-short West European nations, particularly West Germany. In 1970, for example, there were approximately 250,000 Greek workers in West Germany alone. By 1971, workers' remittances reached $457 million, compared with $238 million five years earlier. Remittances grew much faster than the number of workers abroad, as the latter profited from West European wage inflation and changing exchange rates. To capitalize on growing affluence in the United States and Western Europe, Athens fostered construction of tourist facilities and held down charges for lodging by exempting the business from certain taxes. These efforts – and Greece's historic and scenic interests – combined to attract 2.5 million foreign visitors in 1971, and net tourist receipts soared to $232 million, or more than twice the 1966 level.

23. One of the junta's goals was to repatriate Greek-owned vessels and thereby increase shipping receipts. Although Greek nationals owned numerous vessels, less than half were registered in Greece in 1966. The government has persuaded many shipowners to register vessels in Greece and transfer their home offices to Athens or Piraeus by offering tax concessions and liberal loans for purchasing ships, improving facilities for worldwide communications, expanding maritime banking and insurance services, and opening additional seamen's training schools. Since 1966, the number of ships operating under the Greek flag has increased by about three-fourths – largely because of transfers from other countries – and net transportation receipts have risen from $150 million to $284 million.

Figure 4

Greece: Net Foreign Exchange Receipts from Services



24. Greece has continued to need sizable capital inflows to help cover its import bill, but these requirements have neither grown as fast as imports nor depended significantly on official aid. Receipts of private capital – mostly long-term or medium-term – rose from $173 million to $306 million during the period and largely covered the current account deficits (see the table). Although considerable reliance was placed on suppliers' credits (including some with short maturities), the junta neither initiated this practice nor carried it to extremes, as some of its critics have charged. Other long-term private capital inflows fell sharply in 1966 because several large foreign investment projects had been completed and few new ones were being initiated. Private capital inflow continued to stagnate for a time after the military takeover, but in the past two years it has surpassed the

Greece: Summary Balance of Payments

Million US $

	1966	1967	1968	1969	1970	1971
Current account balance	-235	-188	-234	-351	-414	-375
Net capital inflows	220	183	271	322	391	538
Suppliers' credits	45	24	69	55	83	87
Of which:						
Short-term credits	27	-9	10	27	37	N.A.
Other long-term private capital[a]	128	126	134	154	228	219
Official capital	39	25	13	21	-4	-26
Commercial banks	8	18	27	37	66	165
Central bank capital transactions	—	-10	28	55	18	93
Allocation of Special Drawing Rights	—	—	—	—	17	15
Net errors and omissions	7	18	-1	29	9	-4
Balance of payments	-8	13	36	0	3	174

a. Including public power corporation.

1965 peak. In contrast to the large, capital-intensive projects undertaken in the first half of the 1960s (for example, the Esso-Pappas oil refinery and petrochemical complex and the Pechiney aluminum plant), foreign investors recently have shown the greatest interest in relatively small projects, often with an export or tourist orientation.

Benefits for Consumers

25. Whatever they may think about the political situation, most Greek consumers can scarcely complain about the economy's progress. Workers' real wages increased between 4% and 7% each year in 1967-71. The diet has improved, as evidenced by sizable increases in both production and imports of meat since 1966. Retail sales volume was up 65%, and the number of passenger cars more than doubled during the five years.

Prospects for the Next Several Years

26. Prospects for further rapid economic growth during the next several years are good. The recently announced development plan for 1973-87 sets a target of annual GNP gains averaging about 7%. If current economic policies and high levels of fixed investment are maintained and if – as seems likely – a balance-of-payments crunch is avoided, Greece should be able to approximate the 7% goal for the next several years, at least. Greece probably will continue to have a military-backed government for some years, even though one condition that the junta set for a return to parliamentary rule – a per capita income level of $1,100 – has now been attained. There is little reason to suppose that the Papadopoulos regime, or any successor acceptable to the military, will change basically the economic policies that obviously have been working well.

27. To avoid a balance-of-payments crunch, Greece almost certainly will have to achieve large increases in industrial exports and tourist earnings, together with sizable gains in other current account receipts and capital inflows. Only in this way will it be able to finance import expansion, which Athens tentatively estimates at about 12% annually for a 7% growth of GNP. Prospects for boosting exports of manufactures – particularly textiles, metals, chemicals, simple electrical appliances, footwear, and handicrafts – are fairly bright. These products are of demonstrated competitiveness and have been sold in rapidly growing amounts, particularly in the EC, in recent years. In addition, Africa and the Middle East have been developing as a market for these products. Capacity to make them has been increasing steadily and can be expected to expand further. Thus, the possibility is good that exports of manufactured and handicraft goods will grow by 30% to 40% annually for several years. Although metals are subject periodically to weak demand or excessive supply in the world market, Greece is counting heavily on its metallurgical industry to boost export earnings and should have at least some success. Increases in metal processing and manufacturing capacity should begin providing additional output beginning in 1973.

28. Growth prospects for agricultural exports – which still make up half of total exports – are only fair, and even moderate gains depend on further changes in the composition of output. Although the demand for oriental tobacco is poor, demand for fruits and vegetables is strong – especially in EC countries. Greece is subsidizing production of these commodities and has had considerable success marketing them in recent years. Cotton has also become an important agricultural export (second largest in 1971), and Greece is experimenting with long-staple Egyptian cotton, which is in great demand worldwide.

29. The outlook for earnings from services seems favorable. In particular, tourist receipts are expected to increase rapidly over the next several years. Greece has the location and attractions to cash in on the travel boom associated with growing affluence. Moreover, its prices are expected to remain low compared with those of most other South European countries. Although the West European demand for foreign labor probably will decline toward the end of the 1970s, some increase is expected over the next few years. This demand, combined with an available supply of Greek labor and rising wage rates abroad, should tend to boost workers' remittances. Earnings from shipping activities are likely to be more volatile and will probably grow less rapidly than workers' remittances or tourist receipts.

30. If exports and other current account receipts grow by 10% or so during the next few years (about the same rate as in 1967-71), Greece will still need to attract some \$300 million to \$500 million in medium-term and long-term capital to keep its external payments approximately in balance. With about \$1.5 billion of foreign obligations – mostly short-term or medium-term maturity loans obtained on commercial terms – falling due within the next five years, the presently modest (13%) ratio of debt service to exports and service earnings will rise. Greece, however, is meeting with considerable success in obtaining new, longer term financing. Following a lengthy hiatus after the coup, the military government recently has been able to obtain sizable long-term loans – some on concessionary terms – from the International Bank for Reconstruction and Development, an international bank consortium, and a Japanese bank consortium. In addition, seven-year and longer suppliers' credits are now available to Greek purchasers as opposed to the three-year to five-year credits offered prior to 1971.

31. If Greek foreign exchange earnings do not develop as favorably as expected, the growth of output probably will slacken. Athens' foreign reserves are sufficient to compensate partly for some widening of the payments gap. Moreover, import restrictions, if necessary, could be focused on the large flow of consumer goods, obviating restrictions on capital goods and industrial inputs. Even with such measures, however, the government probably could not head off a slowdown in growth, because balance-of-payments strains would dampen private investors' confidence.